FISCAL NOTE

Bill #: SB 16 **Title:** Revise business equipment tax

Primary Sponsor: Jon Ellingson **Status:** Introduced

Sponsor signature Date Chuck Swysgood, Budget Director Date

Fiscal Summary

	FY2003 Difference	FY2004 Difference	FY2005 Difference
Expenditures:			
General Fund	$353,770	$17,000	$17,000
- General Fund Refund	856,022	$0	$0
University 6 mill Refund	$53,861	$0	$0
Revenue:			
General Fund (95 Mills)	$7,251,614	$7,251,614	$7,251,614
State Special Revenue (University 6 Mill)	$488,825	$542,686	$542,686
Net Impact on General Fund Balance:	**$6,041,822**	**$7,234,614**	**$7,234,614**

Yes	No		Yes	No	
X		Significant Local Gov. Impact	X		Technical Concerns
		Included in the Executive Budget	X		Significant Long-Term Impacts
	X	Dedicated Revenue Form Attached		X	Family Impact Form Attached

Fiscal Analysis

ASSUMPTIONS:

1. This bill exempts from property taxation the first $50,000 of class 8 business equipment for each business. The bill imposes taxable rates on class 8 property based on the market value of the business equipment where for each business: the first $50,000 in market value is exempt, the next $450,000 has a rate of 3%, the next $4.5 million of market value has a taxable rate of 6%, and market value in excess of $5 million has a taxable rate of 9%.
2. The proposal adds language that considers the increase in class 8 taxable value as newly taxable property; therefore local governments (county and city) could collect new property tax revenue on this additional taxable value if they chose.
3. The bill provides for the apportionment of the $50,000 exemption among school districts based on the ratio of each businesses class 8 market value in that school district. This bill also eliminates the phase out of class 8 property, specifies that the exempt market value of class 8 be included in debt limits, and provides for the extension of 2002 statutory deadlines.

4. Preliminary tax year 2002 data shows a total of 30,196 businesses paying property tax on class 8 business equipment, with a statewide market value of $3,950,773,042. Not accounting for approximately $2 million in class 8 local property tax abatements, a tax rate of 3% calculates to a preliminary current law tax year 2002 statewide taxable value of $118,523,191.
5. It is estimated that the proposal's tax schedule would result in exempting 21,630 (71.6%) businesses from property taxation on business equipment. The taxable property of the class 8 property of these business would be exempt from property taxes. An estimated 8,042 businesses would see a reduction in the taxable value of their class 8 property tax and pay less class 8 property tax under the proposal. An estimated 524 businesses would see an increase in the taxable value of their class 8 property and would pay more class 8 property tax under the proposal. The net result would be an increase in the total statewide taxable value of class 8 property of $90,447,614. To estimate the property tax impact to the state and local governments, it is estimated that $75,901,333 of this increase is an increase in taxable value for state and local governments. The balance is located in the incremental value of tax increment finance districts (TIFs). The property tax paid on the incremental value tax of TIFs is revenue for the TIF districts (excluding that amount paid to the University 6 mill levy).
6. Applying the state 95 mill levy to the estimated increase in taxable value of $75,901,333 results in an additional $7,210,627 ($75,901,333 x 95 mills) in revenue.
7. The University 6 mill also collects mill levy revenue on the incremental value of TIF districts. For this analysis, the taxable value before deduction ASMI of $90,447,614 is used to estimated revenue for the University 6 mill. Applying the University 6 mill to estimated increase in statewide taxable value of $90,447,614 results in an additional $542,686 ($90,447,614 x 6 mills) in revenue.
8. According to 20-25-439, MCA, the 1.5 mill Vo-Tech mill is levied in five counties: Silver Bow, Cascade, Yellowstone, Missoula, and Lewis and Clark. These five counties make up approximately 36% of statewide taxable value. This analysis assumes the five counties have the same proportional increase in taxable value as the entire state. The fiscal 2003 property tax base of the Vo-Tech mill levy is estimated to increase by approximately $27,324,480 ($75,901,333 x 36%) in taxable value.
9. Applying the 1.5 Vo-Tech mill levy to the estimated increase in taxable value of $27,324,480 is an additional $40,987 ($27,324,480 x 1.5 mills) in revenue.
10. Total additional general fund revenue attributed to the change in taxable rates is estimated to be $7,251,614 ($7,210,627 + $40,987) beginning in FY03.
11. Businesses with personal property not liened-to-real pay their personal property tax in May of the current fiscal year. Due to the retroactivity of the bill, businesses that paid their personal property taxes in May 2002, and see a decrease in tax liability under the proposal will be issued tax refunds.
12. It is anticipated that 8,235 businesses that own personal property not liened-to-real will see a reduction in class 8 taxable value, totaling $8,976,787.
13. Applying the state 95 mill levy to the estimated reduction in taxable value of $8,976,787 results in refunds from the 95 mill levy totaling $852,795 ($8,976,787 x 95 mills) revenue
14. Applying the University 6 mill to estimated reduction in taxable value of $8,976,787 results in refunds of $53,861 ($8,976,787 x 6 mills).
15. Applying the 1.5 Vo-Tech mill levy to the estimated decrease in taxable value of $2,151,643 (vo-tech mill counties) results in refunds of $3,227 ($2,151,643 x 1.5 mills).
16. The total fiscal 2003 reduction in General Fund revenue due to tax refunds under the proposal is estimated at $856,022 ($852,795 + $3,227).
17. The total fiscal 2003 change in General Fund revenues are estimated by subtracting the amount to be refunded in fiscal 2003 from the additional revenue generated from the change in tax rates. The change in General Fund Revenue for fiscal 2003 is estimated at $6,884,417 ($7,794,300 - $909,883).

18. Changes in fiscal 2004 and 2005 revenue are projected to remain at the fiscal 2003 level of additional revenue of $7,251,614 and $542,686 for the State General Fund and University, respectively, attributed to the taxable rate change (no deduction for refunds).

-Administrative Costs

19. Considering the bill is retroactive to tax years beginning after December 31st 2001, this would mean that taxable values would need re-certification for fiscal 2003. Re-certification includes balancing the state report to the county systems, the determination of newly taxable property for each jurisdiction, and sending notification to each jurisdiction. The department expects a one-time additional personal services cost of $33,684 for 1.32 FTE needed to re-certify. For re-certification, the department also anticipates a one-time cost for mailing new assessment notifications of $4,500 in fiscal 2003. Total fiscal 2003 cost for re-certification is estimated at $38,184 ($33,684 + $4,500).
20. For fiscal 2004 and 2005, the requirement to report the value of exempt class 8 property for bonding purposes, will require the department to send personal property reporting forms to an additional 34,200 owners. Each reporting form costs an estimated $0.50, which is an increase in operating expenses of $17,000 (34,200 x .50).
21. Information Technology (IT) estimates that 4,241.25 programming hours would be needed in fiscal 2003 to comply with the proposal, at a cost of $300,240. Equipment and mainframe charges are estimated to cost $15,346 for fiscal 2003. Total estimated one-time IT costs for fiscal 2003 are $315,586 ($300,240 + $15,346).
22. Total administrative costs for fiscal 2003 are $353,770 ($315,586 +38,184). Total administrative costs for fiscal 2004 and 2005 are $17,000 in each year.

FISCAL IMPACT:	FY2003 Difference	FY2004 Difference	FY2005 Difference
FTE	1.32	0	0
Expenditures:			
General Fund Property Tax Refunds	$856,022	$0	$0
University 6 mill levy Property Tax Refunds	$53,861	$0	$0
Personal Services	$33,684	$0	$0
Operating Expenses	$304,740	$17,000	$17,000
Equipment	$15,346	$0	$0
TOTAL	$1,263,613	$17,000	$17,000
Revenues:			
General Fund (01)	$7,251,614	$7,251,614	$7,251,614
University 6 mill levy	$488,825	$488,825	$488,825
Net Impact to Fund Balance (Revenue minus Expenditure):			
General Fund (01)	$6,041,822	$7,234,614	$7,234,614
University 6 mill levy	$434,964	$488,825	$488,825

EFFECT ON COUNTY OR OTHER LOCAL REVENUES OR EXPENDITURES:

1. Under the proposal, revenue for local governments (including school districts) could increase significantly due to the $75,901,333 increase in statewide taxable value. The increase in taxable value due to exempt property becoming taxable is considered newly taxable property. Because of this, county and city governments could collect new property tax revenue on this new taxable value if they chose. At current

mill levy levels, DOR estimates a total possible increase of $26,376,500 in local government revenues. This total increase includes increase to local school districts. An increase in property taxes to local school districts would result in a corresponding decrease in GTB payments. An estimate of a decrease in GTB payments has not been determined.

2. This bill has a retroactive date of Dec. 31st 2001. Supplemental and additional tax bills will have to be issued, and local governments will need re-certification of taxable values.

LONG-RANGE IMPACTS:

The proposal eliminates the current law trigger for the eventual elimination of taxation of class 8 property. Some time in the very near future, by chance alone, the current law trigger will ultimately be hit and taxation of class 8 property would be eliminated. Under current law, it is estimated that the amount of property taxes paid on class 8 property is $52,000,000. Of this amount $12,000,000 is state general fund revenue and $40,000,000 is revenue for local governments and local school districts. Considering that it is highly unlikely that the trigger will not be met in the long range, the trigger is a $52,000,000 liability (current year dollars) to the state and local governments under current law. The proposal, by eliminating the current law trigger, replaces the $52,000,000 liability with $86,170,800 ($52,000,000 current dollars class 8 revenue and $34,170,800 in new class 8 revenue) in new revenue. The result is $138,170,800 more revenue available for state and local governments under the proposal than available under current law.

TECHNICAL CONCERNS:

1. The bill is retroactive for tax year 2002. This is problematic for several reasons. Many businesses have already been billed and have paid their property taxes on class 8 property for tax year 2002. The property taxes for each of these businesses would have to be recalculated. Those businesses with an increase in property taxes would have to be re-billed. Those businesses with a decrease in property taxes would be entitled to a refund.
2. Because the Department of Revenue would be required to re-certify taxable values to local governments, there will be a delay in the local government budget process. The IT challenges in administering the bill could cause the delay to be significant. The delay could cause operating capital problems for local governments.
3. The bill contains a method of allocating the value of the exemption of the first $50,000 among the taxing jurisdictions where the business is located. Some type of allocation methodology would also be necessary for allocating the non-exempt taxable value. A system that allocates taxable value across taxing jurisdictions would lessen the value of a local government granting a local property tax abatement to class 8 property. The abatement would reduce the taxable value of the class 8 property, but the allocation system would spread the reduced taxable value across all taxing jurisdictions where the property is located.
4. Language in sections 4 and 5 (local taxing jurisdiction bonding authority) of the bill appear to require the Department of revenue to annually track the value of class 8 property exempted by the $50,000 exemption. The $50,000 exemption would result in many businesses paying no class 8 property tax, however, each business would still be required to report their class 8 property so that the department could track the exempt value for local taxing jurisdiction bonding authority purposes). This would require the department to annually mail and process personal property reporting forms to all class 8 property owners, when ultimately most owners of class 8 property will not pay property taxes on class 8 property.